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Contents

Panama: Situation Report	1
Nicaragua-Honduras: Situation Report	3
Iran-Iraq: Situation Report	5
Lebanon-Israel-Iran: Southern Lebanon Heats Up	7-
6163	8
Notes	
	٠
5 53	9
USSR: Pravda Rejects Armenian Demands	9
South Africa: Implications of Protest	10
Egypt: Emergency Law Extended	10
El Salvador: Rightwing Landslide	-11 -
Australia: New Election Setback for Hawke	11
USSR: Diplomatic Swing Through Southeast Asia	. 12
Sri Lanka-India: New Round of Tamil Violence	12
In Brief	13
Special Analyses	
b1 b3	14
Haiti: Daunting Economic Challenges	15
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PANAMA:

Situation Report

Regime Proposal

Designated President Solis Palma yesterday said Defense Chief Noriega had offered to resign before elections scheduled for next year, provided the opposition agreed to a dialogue to resolve the current crisis. The opposition immediately rejected the offer.

Noriega Marshaling Support

The Defense Forces yesterday announced the promotion of some Meanwhile, leaders of two of DPanama's largest labor organizations are backing a public statement that implicitly endorses Noriega's remaining in power. The statement, which has a stridently anti-US tone, calls for a new "war cabinet,"governmental measures to ensure the food supply, guaranteed public transportation, a new currency exchange system, and controls over imports and capital flight.

Economic **Developments**

percent of the businesses in Panama City observed the general strike yesterday. Small establishments in the central commercial district—a traditional, Norlega stronghold-joined in strike activity for the first time,

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The compliance of small businessmen with the strike indicates a further erosion of Norlega's traditional support base. International banks will be reluctant to make loans to the Solis Palma government because of the uncertain political environment as well as ousted President Delvalle's statement that he will not recognize such obligations if he returns to power. The regime's inability to meet current debt payments will add to the bankers' determination to avoid further exposure in Panama.

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Cease-Fire Negotiations

Talks between the Sandinistas and rebel forces opened yesterday at Sapoa. Both sides declared a cease-fire during the talks, scheduled to conclude tomorrow. The insurgent delegation was headed by three directorate members and included representatives from the Southern Front and the Yatama forces. The Nicaraguan rebels intend to propose two options: a 30-day cease-fire in place if Managua accepts Cardinal Obando's four principles from the last talks in Guatemala or a permanent cease-fire in place if the Sandinistas immediately comply with the Central American peace plan. Another rebel priority is the reinstatement of Cardinal Obando as a mediator.

probably will argue that it has already made concessions by agreeing to hold the talks in Nicaragua and by assigning Defense Minister Humberto Ortega to head its delegation. The regime also is unlikely to alter its previous offer for cease-fire zones and amnesty for the rebels.

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LEBANON-ISRAEL-IRAN:

Southern Lebanon Heats Up

Hizballah, with the backing of Iran, appears to have embarked on a more active anti-Israeli strategy in southern Lebanon.

Last week for the first time, the radical Lebanese Shia group claimed responsibility for rocket attacks on northern Israel. Moreover, reports indicate Hizballah attacked several Israeli and Army of South Lebanon positions in the Israeli security zone yesterday.

43

Tel Aviv almost certainly believes the emerging Hizballah-Palestinian alliance will lead to more violence in southern Lebanon. The recent spate of Palestinian infiltration attempts and Hizballah-claimed rocket attacks along Israel's northern border will provide increased Israeli military responses north of the zone. Such operations might trigger a clash between Israeli and Syrian forces, which are located near some of Hizballah's operation centers.

Iran probably believes that demonstrating Tehran's commitment to the Palestinian cause will help counter Arab criticism of Tehran's war against Iraq. Tehran probably also hopes that Hizballah's anti-Israell actions will enhance the influence of both Iran and Hizballah in southern Lebanon at the expense of the less radical Shia Amal

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VIETNAM-CHINA:

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USSR: Pravda Rejects Armenian Demands

Thousands demonstrated in Armenia yesterday after an article in Pravda appeared to reject Armenian calls for the return of Nagorno-Karabakhskaya Oblast. The article said that the idea has 'a clear antisocialist tinge" and that its advocates were under the influence of Westerners seeking to splinter the USSR. It also claimed protest organizers have threatened local leaders opposed to reunification. TASS also attacked some of the organizers yesterday, accusing them of seeking foreign backing, calling for "a mass hunger strike" and demanding that Armenia be declared a "nonparty" republic. Perhaps to appear evenhanded, Pravda attacked the party organization in Azerbaijan and promised to publicize the official investigation of the riot last month in Sumgait

Last week, several Armenian activists apparently had the impression that Moscow would decide in their favor. The attack by the media is probably meant not only to prepare Armenians for disappointment and to reassure the Azerbaljanis that Moscow will not rule in Armenian favor but also to warn nationalists and local parties elsewhere against making similar demands. Nonetheless, the virtual rejection of the key Armenian demand will make it harder for moderates to defuse pressure for immediate action and to keep the demonstrations under control.

SOUTH AFRICA: Implications of Protest

Black participation in the nationwide day of protest yesterday indicates that United Democratic Front affiliates still operate effectively in many black townships despite Pretoria's recent restrictions on the opposition. Between 40 and 90 percent of blacks in key urban areas of Transvaal, Natal, and eastern Cape Provinces took part in the work boycott; intimidation by radical blacks may have encouraged participation in some areas, according to press reports. Two universities—including one white campus—and many black township schools were closed. Police spokesmen say they will take "strict action" against the organizers of the protest.

The success of the boycott will encourage black opposition groups still reeling from a crackdown last month and will stimulate efforts to stage nationwide protests on 1 May and on 16 June—the anniversary of the Soweto uprising. The protest yesterday will strengthen the arguments of those in the South African Government who favor even tougher measures, such as an outright ban of the UDF. Such a ban would prove difficult to enforce, however, because of the informal nature of many of the UDF's youth and community-based affiliates.

EGYPT: Emergency Law Extended

Legislation extending Egypt's emergency law for three years was rushed through the People's Assembly by the government Sunday more than a month before its scheduled expiration.

The state of emergency—imposed in 1981 after President Sadat's assassination—allows President Mubarak to override normal arrest and detention procedures and to suspend political liberties to protect stability. Its sudden extension—almost certainly timed to catch the opposition offguard—signals Mubarak's endorsement of interior Minister Zaki Badr's hard line on internal security. The extension—coupled with two recent incidents of police harassment of Brotherhood deputies—probably will hinder efforts by some members of the ruling party to establish a "national dialogue" with the opposition.

97

Top Secret

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EL SALVADOR: Rightwing Landslide

The Alliance also

appears to have won a majority of the mayoral races in 13 of 14 departments. President Duarte's son has conceded defeat as the mayoral candidate for San Salvador, the first time the ruling Christlan Democratic Party has lost political control of the capital since 1964.

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The rightwing opposition's campaign against the ruling party focused on government corruption, maladministration, nepotism, and an inability to control leftist violence in the cities.

Moreover, the party's factional infighting and failure to deliver on past campalgn promises alienated many of the Christian Democrats' traditional lower-class supporters.

AUSTRALIA: New Election Setback for Hawke

Prime Minister Hawke says his government will review its economic policies following the Australian Labor Party's lopsided loss Saturday in the New South Wales state election. The party's defeat in the traditional Labor stronghold was its worst in more than 50 years, the Labor Party also performed poorly in state by elections in Victoria and Western Australia. Hawke faces another electoral test this weekend with a parliamentary by election in Adelaide to replace former immigration Minister Mick Young, a key Hawke ally who resigned last month for financial irregularities.

Although local issues dominated the elections, Labor's losses and declining public support in polls suggest some traditional Labor voters are abandoning the party. Labor's left wing will use the party's setbacks to criticize the probusiness policies of Hawke and Treasurer Keating. The Hawke government is unlikely to make major changes in its economic agenda as a result of the election losses, but Canberra will probably back down from its controversial plan to sell several government-owned corporations and may place new restrictions on uranium exports to appease party leftists. Labor is favored to win the Adelaide byelection, but a close vote would further embarrass Hawke and increase Labor Party factional fighting over economic policy.

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USSR: Diplomatic Swing Through Southeast Asia

Soviet Deputy Foreign Minister Rogachev has begun a monthlong tour of Southeast Asia with a meeting of Indochinese deputy foreign ministers in Phnom Penh. In discussions centering on Cambodia, Rogachev advocated further dialogue between Hun Sen and Prince Sihanouk. He also urged a peaceful settlement of the Spratly conflict. Rogachev will stop in Vietnam and Laos before proceeding to the Philippines, Malaysia, Thailand, and Singapore; he will attend UN-sponsored regional economic meetings in Jakarta on 11 April.

Throughout the trip, Rogachev will probably tout recent Soviet efforts for settlements in Afghanistan and Cambodia and will continue to seek expanded trade. In the Philippines, he is sure to reiterate Soviet offers to reduce its regional forces if the US withdraws its bases. In Vietnam, he is likely to deflect any request to expand Soviet support on the Spratlys beyond intelligence sharing by urging Vietnam to exercise military restraint and to continue pursuing a diplomatic solution.

SRI LANKA-INDIA: New Round of Tamil Violence

Tamil insurgents are intensifying violence against Sri Lankan civilians in the Eastern Province. Tamil Tigers have killed more than 70 Sinhalese this month.

Sri Lankan President Jayewardene sent representatives to New Delhi last week to brief Prime Minister Gandhi on the deteriorating security situation. The Sri Lankan delegation claims the two countries' Armies will expand cooperation, but publicly denied joint operations will be conducted against the Tigers.

The Tigers probably believe that attacks on Sinhalese civilians not only avoid the risk of a direct confrontation with Indian forces but also may trigger renewed Tamil-Sinhalese communal violence and forestall provincial council elections scheduled in the Tamil areas by midsummer. They may regret having rejected Colombo's and New Delhi's interim provincial scheme last fall that granted the Tigers considerable influence and may calculate that they can win similar concessions now. New Delhi may decide that a somewhat larger counterinsurgency role for Sri Lankan security forces will deflect Sinhalese criticism that Indian forces are not doing their job. The Indian military will continue to exert control over the Sri Lankan forces' activities.

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12

In Brief

Middle East

Tunisian President Ben Ali released some 2,000 prisoners Friday, third major pardon since he took power in November ... not clear whether goodwill gesture included fundamentalists:

Africa

Ethiopian President Mengistu, Somali President Siad on Sunday held first meeting in two years . . . compromise on border dispute unlikely . . . Mengistu probably hoping to reduce tensions with neighbor while Army countering insurgent attacks in north.

East Asia

Tokyo press says car bomb exploded near Israeli Embassy and bomb strapped on motorcycle exploded near Saudi airline office Sunday : responsibility uncertain . . . both left and right targeting foreign government interests in Japan.

Europe

West Germany's Messerschmitt-Belkow-Blohm has unveiled first Airbus military tanker-transport ... based on midrange ... seeking sales to small countries, but is likely to offer for NATO's proposed multinational air-refueling force.

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224 Parch 1988

Special Analysis ISRAEL-SAUDI ARABIA:

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Haiti: Foreign Aid and the Economy, 1983-88'

Note scale change Increased levels of foreign aid ... helped increase foreign reserves and improved in 1986 and 1987 . . . the net foreign position of the banking system . . . Million US \$ Million US \$ 150 - Total Net 150 reserves 100 Grants Liabilities Loans .50 100 50. -50 -100 . . . reduced the public-sector deficit as a . . and cut the rate of inflation. share of real GDP after grants. Percent Percent 2 ō Meanwhile, the real GDP ... as imports and exports continued to stagnate . . were reduced by unrest. Percent Million US \$ 1.0 400 0.8 Exports, 300 0.6 Imports 200 0.4 100 0.2 87 84 86 87° a Data for fiscal period ending in September of the stated year.

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b Estimated.
^c Projected.

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Special Analysis

HAITI:

Daunting Economic Challenges

President Manigat has been slow to focus on Halti's severe economic problems, partly because foreign exchange reserves have provided a breathing space before much harsher austerity measures become unavoidable. A visiting IMF team expressed doubt early this month that Haiti could develop a sound economic program that would allow early resumption of IMF and World Bank lending programs. Unless he can cope with the economy, Manigat will have difficulty consolidating power without reverting to the strongman rule that has typified Haltian politics.

After two years of generous foreign aid-including the continuation of aid by non-US bilateral donors—Halti's external cash reserves are higher than initially estimated and have helped to cushion the suspension of \$100 million in US nonhumanitarian and IMF and World Bank support. Wheat supplies should be adequate through the rest of 1988, and the Central Bank probably has the cash to pay for other crucial imports, including oil, for as long as six months if it delays some debt servicing.

This breathing space has allowed Manigat to delay taking steps to offset the aid cuts and reduce the burgeoning budget deficit.

Prospects Poor for Multilateral Funding

IMF officials are pessimistic about reviving IMF and World Bank programs, primarily because they view as halfhearted the government's attempts to reduce the budget deficit. They believe revenues should be increased by halting smuggling, ending some tax exemptions for domestic and foreign companies, and reducing tax evasion-measures likely to prove risky because they would affect politically powerful groups. IMF officials also believe that the Manigat government lacks the strong economic leadership provided by the former Finance Minister and that this will seriously hinder efforts to initiate and implement an effective economic program.

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Near-Term Outlook Precarious

Manigat's ability to attract foreign funding will be pivotal in determining Haiti's economic and political course in the next six months or so. Should Manigat fail to persuade the IMF and World Bank to restore their programs—his first real chance to obtain significant new aid—the military and other entrenched interest groups probably would begin to question his usefulness.

most Haltians are weary of unrest and willing to give Manigat a grace period, they probably will begin to lose patience with his slowness in restarting the economy and implementing political reforms. Labor unions, although small, have become increasingly active in recent weeks. There have already been strikes for higher wages and protection from layoffs at several factories, and the pace may pick up in the next few months.

Unhappiness with the government is likely to grow by midyear, and eventually Manigat may be tempted to use a heavy hand to quell dissent and placate the military. Should major unrest erupt, serious disruption of manufacturing and other economic activities might occur, which would further depress the economy and drive off nervous foreign investors. Such economic problems and political uncertainties will keep Manigat under pressure and leave open the possibility of a gradual drift toward authoritarian rule.